FINANCE, AUDIT AND RISK COMMITTEE
3 DECEMBER 2020

PART 1 – PUBLIC DOCUMENT

TITLE OF REPORT: DRAFT BUDGET 2021/22

REPORT OF THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: EXECUTIVE MEMBER FOR FINANCE AND IT

COUNCIL PRIORITY: ENABLE AN ENTERPRISING AND CO-OPERATIVE ECONOMY

1. EXECUTIVE SUMMARY

1.1. Cabinet is asked to consider the draft budget for 2021/22 and the main factors which contribute to the determination of the North Hertfordshire District Council (NHDC) Council Tax level.

2. RECOMMENDATIONS

2.1. That Cabinet note the funding forecasts for 2021/22 and the significant uncertainty around Central Government funding levels in 2021/22 and beyond, and that these estimates provided could be subject to significant change.

2.2. That Cabinet note the comments made at the budget workshops, and comment on the inclusion of the revenue savings and investments in the draft budget.

2.3. That Cabinet note the comments made at the budget workshops, and comment on the inclusion of the capital investments in the draft budget.

2.4. That Cabinet confirm that Council Tax increases for 2021/22 will be in line with the Medium Term Financial Strategy (i.e. the maximum amount allowed without the need for a local referendum).

3. REASONS FOR RECOMMENDATIONS

3.1. To ensure that all relevant factors are considered in arriving at a proposed budget and Council Tax level for 2021/22, to be considered by Full Council on 11 February 2021.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1. In seeking to address the funding gap detailed in the Council's Medium Term Financial Strategy for 2021-26, Political Groups and Officers have been asked for savings ideas and these are presented in appendix A to this report.

4.2. The proposed investments are a combination of cost pressures to deliver existing services and new spend that is linked to the delivery of priorities identified within the Council Plan.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

5.1. Councillors were given an opportunity to comment on the revenue efficiency, revenue investment and capital proposals at the budget workshops. The comments from these workshops are detailed in this report.

5.2. This report is the first draft of the budget and a further report to Cabinet will follow in January. Both reports will also be considered by the Finance, Audit and Risk (FAR) Committee.

5.3. Business Ratepayers will be consulted on the proposals within the January report. This is the only statutory consultation that is required. It is intended that this consultation will be via the website/ e-mail, as previous consultation events have not been very well attended, and this is also more practical given the impact of Covid-19.

5.4. If any saving proposal is anticipated to have a particular impact on a specific area (or areas) then it would be referred to the relevant Area Committee(s). It is however considered that this does not apply to any of the savings included.

6. FORWARD PLAN

6.1. The report contains a recommendation on setting a draft budget which is a key Executive decision that was first notified to the public in the Forward Plan on the 16 November 2020. The budget for 2021/22 will need to be approved by Full Council in February.

7. BACKGROUND

7.1. The Medium Term Financial Strategy (MTFS), which provides the financial background for the Corporate Business Planning Process, was approved by Full Council in September following recommendation by Cabinet. The budget estimates within the MTFS included a number of assumptions. These have been updated as better information has become available and further updates will be made prior to the presentation of the budget to Cabinet in January. The final budget recommended to Council in February will still contain some assumptions, hence monitoring reports are provided to Cabinet on a quarterly basis.

7.2. The Covid-19 pandemic is expected to have a fundamental impact on the Council's finances in the short and medium term. The financial impacts of Covid-19 have been detailed in a separate report to Cabinet in July and a further summary update is included in the Second Quarter Revenue Budget Monitoring report, which will be considered by Cabinet this evening. It is anticipated that additional funding from Central Government will not fully compensate for the financial impacts of Covid-19 and this has therefore reduced the projected reserves available at the start of the financial year 2021/22. With regards to the medium term, at this stage the budget estimates for 2021/22 and beyond provided in this report have not been adjusted for those impacts identified as most likely to be ongoing, such as reduced demand for car parking and leisure centres, due to the associated level of uncertainty. The Medium Term Financial Strategy did consider sensitivities in respect of key sources of income and concluded that the Council had sufficient reserves to manage these risks.

7.3. Due to Covid-19, the introduction of a new Fairer Funding Formula and 75% Business Rates Retention have been delayed. The details of these are now expected in 2021/22 for implementation from 2022/23. Similarly, there has also been no Autumn Budget this year, while an anticipated three-year Spending Review will now cover only one year, with an announcement expected from the Chancellor in late November. The provisional Local Government settlement is likely to be announced in mid-December, and the final settlement expected in January.

7.4. The Council has applied, along with four other Hertfordshire District and Borough Councils and Hertfordshire County Council, to form a Business Rates Pool for 2021/22. The anticipated benefit, based on current forecast rates income, from the pooling of Business Rates is a relative reduction in the business rates levy payable to Central Government next year, referred to as the 'pooling gain', meaning the Council will be able to retain more of the Business Rates income it collects. Should the forecast position change, however, each of the proposed pool members have the option to withdraw from the Pool after (within 28 days of) the announcement of the Local Government Finance settlement. Such is the volatility of business rates and the higher level of uncertainty surrounding estimates in this area, a pooling gain in 2021/22 is not assumed in the estimated funding figures contained in this report.

8. RELEVANT CONSIDERATIONS

General and Specific Funding

8.1. With the delays to planned changes in Local Government funding mechanisms and the Government spending review announcement to now only cover one year, it is assumed that the funding outcome for 2021/22 will be similar to last year, with the application of the "negative Revenue Support Grant" (RSG) (or equivalent) deferred for at least a further year. This however remains subject to confirmation from Government and the publication of the provisional Local Government Finance Settlement. Funding amounts for the Council in 2022/23 and beyond are highly uncertain, with reforms to Local Government funding and business rates having a potentially significant impact on the level of funding the Council receives.

8.2. The key assumptions underlying the funding amounts shown in table 1 are as follows;

- Business rates retained next year and beyond will be at the Business Rates Baseline level. The Baseline will continue to increase annually by inflation, but will be subject to a cut of £1.2m (also increasing by inflation each year) from 2022/23 onwards. This is equivalent to the expected negative RSG, but is actually likely to take the form of a cut to the Councils assessed need following the Fairer Funding Review.
- New Homes Bonus funding will continue to be phased out in line with previous announcements and from 2023/24, there will be no New Homes Bonus received. No assumption is made as to any replacement funding.
- Council Tax can be increased by £5 per year (band D equivalent). There is a risk that the referendum limit could be set lower (e.g. 2%).

8.3. The level of Council Tax funding shown in table 1 has been updated for the calculation of the provisional Council Tax Base for 2021/22, which has resulted in a reduction in the Council Tax Base of 0.34% from that calculated for 2020/21. This has reduced estimated Council Tax income for 2021/22 by approximately £40k. The MTFS did identify this as a potential consequence of the Covid-19 pandemic and so removed the previous assumption of 1% annual growth.

The MTFS estimates had however assumed the Council Tax Base would remain stable. The assumption in table 1 is that the Council Tax Base will return to the 20/21 level in 2022/23 and then no further growth in the subsequent years.

8.4. The above results in the following forecasts of funding for 2021/22 onwards. The forecasts in table 1 are shown for five years on the basis that the Council should be balancing net expenditure and funding within the medium-term:

Table 1 – Estimated General Funding

£000 Funding	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Council Tax	11,961	12,252	12,501	12,751	13,001
Council Tax Collection Fund Deficit	(185)	0	0	0	0
Negative RSG (or equivalent)	0	(1,159)	(1,182)	(1,206)	(1,230)
Business Rates baseline	2,780	2,836	2,893	2,950	3,009
New Homes Bonus	350	131	0	0	0
Council Tax support to Parishes	(39)	(24)	(24)	(24)	(24)
	14,867	**14,036**	**14,188**	**14,471**	**14,756**

8.5. **In recommendation 2.1, Cabinet is asked to note the funding forecasts for 2021/22 and the significant uncertainty around Central Government funding levels in 2021/22 and beyond, and that these estimates provided could be subject to significant change.**

8.6. The Council also receives grants for specific purposes. These grants are built in to service budgets and have therefore already been taken in to account when determining spend forecasts, so can not be used towards funding the base budget. These grant amounts are often uncertain, and reductions in the amount can result in spending pressures that would need to be met from the General Fund. As these grant announcements tend to take place in January, further details will be provided in the next iteration of this budget report in January.

Revenue Savings and Investment proposals

8.7. The MTFS highlighted a need to make £2.65million of net savings (efficiencies, income generation and service changes) over a five-year period i.e. by the end of 2025/26, which included the assumption that £200k of savings would be identified and delivered in 2021/22.

8.8. The revenue savings and investment proposals were presented to Political Group workshops in early November. The full list of revenue savings and investments is attached as Appendix A. This full list includes the impact of previous decisions, such as previous budget decisions made by Full Council and the ongoing impact of budget variances that have been reported to Cabinet since the 2020/21 budget was set.

8.9. Savings in relation to reducing street litter bins, the transfer of public toilets to be run by another organisation and ceasing funding of Christmas trees were considered at the Joint Administration (Labour and Co-operative and Liberal Democrat) budget workshop. In the case of litter bins, it was considered that the saving should be removed until an audit of litter bin locations had been completed, and any future consideration of the saving proposal in future years would be based on that information. In the case of the public toilets, it was felt that these were valuable facilities.

There was support to the general principle of transferring them if their current availability could be maintained, but it was unclear at this stage who would be willing to take on the running of them and deliver the savings proposed. Therefore it was determined that the saving should be removed until more work had been done on who may be willing to take on the toilets and the costs/ savings involved. In the case of the Christmas trees, the saving was not supported. This decision by the Joint Administration group to remove these savings was relayed to the Conservative Group at their budget workshop, as it took place 2 days later. The Conservative Group confirmed that they would also not have supported the savings put forward. In the interests of transparency, the details of these three savings proposals are set out in Appendix A, but they have been greyed out and the value of the savings are not included in the forecast numbers.

8.10. In respect of the proposed saving to reduce the frequency of publication of Outlook Magazine, the Joint Administration Group supported the inclusion of this saving, but also wanted to consider other ways the saving could be achieved and options for delivering a greater saving. As an example, this could include increased advertising.

8.11. The Conservative Group raised a query at their Workshop over the timing of the efficiency delivery from the proposed Crematorium at Wilbury Hills, which is currently assumed to materialise during 2022/23, and whether the planned efficiency amounts should be put back a year. The delivery of the Crematorium is subject to the Council obtaining planning permission from Central Bedfordshire Council, with a public enquiry into the initial decision to refuse permission scheduled for February 2021. As such, these amounts and expected timing will be kept under review.

8.12. The net position of the new savings and investments is shown in table 2 below. The net ongoing impact is a decrease in annual spend of £140k. This is against the target in the MTFS of a net reduction of £2.65million.

Table 2 – New savings and investments (amounts are cumulative impacts on annual budget)- from Appendix A

£000	2021/22	2022/23	2023/24	2024/25	2025/26
New Savings	(168)	(189)	(213)	(211)	(213)
New Investments	265	73	73	73	73
Net (Saving) / Investment	**98**	**(116)**	**(140)**	**(138)**	**(140)**
Net change year on year	98	(214)	(24)	2	(2)

Capital Programme and Funding

8.13. This version of the budget does not include the full capital budget, which will be part of the Investment Strategy (Treasury and Capital) that will be presented to Cabinet in January for recommendation on to Full Council in February.

8.14. The budget proposals that were presented for discussion at the Political Group workshops are attached as Appendix B. This includes all capital projects that have budgeted spend in 2021/22 or beyond. It also includes an estimate of spend over the years 2026-31. It does not include any projects that have been reprogrammed from 2020/21 in the Quarter 2 Investment Strategy monitor (also being considered at this meeting).

8.15. There were no comments of note at the Budget Workshops against the items in the capital programme. All minor changes identified and requested, such as to specific project titles or project descriptions, have been incorporated in appendix C attached.

8.16. It is still expected that the core capital programme (excluding spend in line with the property acquisition and development strategy) will be funded from current and forecast capital receipts in the medium term. Therefore new borrowing costs have not been built in to the revenue budget. This will be further reviewed and updated as part of the January update to Cabinet. For spend that is line with the property acquisition and development strategy, no income generation or borrowing costs are assumed. This is considered to be a prudent approach in the absence of any specific opportunities at this stage, as the initial income generation would be required to exceed any borrowing costs.

8.17. **Cabinet are asked in recommendation 2.3 Cabinet to note the feedback from the budget workshops, and comment on the inclusion of the capital investments in the draft budget.**

Summary Position

8.18. Table 3 below forecasts the net revenue spend for the next five years and includes the impact of the ongoing variances identified in the Quarter Two revenue monitoring report (also presented this evening). The table builds in assumptions around inflation on pay, general expenditure and income. These assumptions will be further refined and updated prior to the presentation of the budget to Cabinet in January. For example, the CPI figure as at November, which will inform increases to discretionary fees and charges (CPI+2%) applied in 2021/22, will not be published by the Office of National Statistics until the middle of December.

8.19. The most significant uncertainty in respect of inflation relates to pay inflation. The Medium Term Financial Strategy assumed pay inflation of 2.75%. This was based on forecast changes in the National Living Wage, where there was a Government intention that the hourly rate would increase to £10.50 by 2024, and the need to maintain appropriate differentials in the Council's pay scales. The £10.50 level was based on this amount being two-thirds of median earnings. Economic conditions are likely to have an impact on inflation and average earnings, so it is likely that wage growth will not be as high as previously forecast. At the time of writing this report, there were also indications that the Chancellor will freeze public sector pay as part of the Spending Review. This does not directly apply to Local Government pay but may be considered as part of pay negotiations. This budget therefore now assumes a revised wage growth of 2.25% per year across the five-year period. This is in line with what other Councils are now forecasting. The pay awards that the Council actually pays will be unchanged by this, as they would still be based on the results of national pay bargaining. The impact of over-estimating pay inflation is that it will require savings to be made to balance the budget, that may not actually be required. There is obviously a risk that this change is under-estimating pay inflation, and if that was the case then there would then be a need to identify more savings when it becomes evident that this is likely to be the case.

Table 3 - Forecast net revenue spend and funding

£000	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Net expenditure brought forward	14,902	15,657	15,883	16,200	16,596
Net new investments (Table 2)	98	(214)	(24)	2	(2)
Other savings and investments (previous decisions)	304	57	(29)	9	(169)
Estimated changes in costs of existing staffing	395	350	350	350	350
Net general expenditure and income inflation	(42)	33	19	35	29
Net expenditure carried forward	**15,657**	**15,883**	**16,200**	**16,596**	**16,804**
Estimated Funding (Table 1)	14,867	14,036	14,188	14,471	14,756
Funding Equalisation Reserve	398	0	0	0	0
Funding shortfall to be met	**392**	**1,847**	**2,012**	**2,125**	**2,048**

8.20. Table 3 demonstrates that, even with the application of the Funding Equalisation Reserve balance, a deficit is anticipated for 2021/22. The Council is therefore justified in increasing Council Tax by the maximum amount allowed without the need for a local referendum. In line with the Referendum Principles for the current and recent years, this is expected to be a £5 increase (Band D equivalent). As set out in the Medium Term Financial Strategy this deficit will be funded from reserves.

8.21. Table 3 shows that the forecast level of savings to be achieved has reduced from the £2.65million calculated in the MTFS to £2.05million. This reduction is due to the net savings that have been identified and changes in assumptions around inflation, especially pay inflation. As members of Cabinet will be aware, a budget review/ challenge process has been started. This has started to highlight opportunities for savings (including efficiencies, service changes and income generation) in future years. Some of those opportunities will need to be taken forward in advance of next year's budget e.g. where they primarily relate to efficiencies. For the majority of those savings, which relate to service changes, these will need to be prioritised so that they can start to be developed and included in next year's budget. This will demonstrate that, whilst the exact value of the savings that the Council needs to deliver is unknown, the Council is committed to the work and decisions that will need to be taken in the medium-term. As set out in the Medium Term Financial Strategy it is expected that the Council will adopt a phased approach to balancing savings, and achieve an in-year balanced budget by 2025/26. Reserves will be used to balance the budget in intervening years.

8.22. **Cabinet is asked in recommendation 2.5 to confirm that Council Tax increases for 2020/21 will be in line with the Medium Term Financial Strategy (i.e. the maximum amount allowed without the need for a local referendum).**

9. LEGAL IMPLICATIONS

9.1. The Cabinet has a responsibility to keep under review the budget of the Council and any other matter having substantial implications for the financial resources of the Council.

9.2. Cabinet's terms of reference include recommending to Council the annual budget, including the capital and revenue budgets and the level of council tax and the council tax base. Council's terms of reference include approving or adopting the budget.

9.3. Members are reminded of the duty to set a balanced budget and to maintain a prudent general fund and reserve balances

10. FINANCIAL IMPLICATIONS

10.1. These are covered in the body of the report.

11. RISK IMPLICATIONS

11.1. The risks are highlighted in section 8. The next iteration of this report will be presented to Cabinet in January, and this version will include a full review of the adequacy of estimates that have been made and of reserve balances. This includes a view from the Service Director- Resources (as the Council's Chief Finance Officer) of the minimum level of General Fund reserves. The margin between actual and the minimum General Fund reserve levels provides a proxy for the level of financial risk that the Council faces, and its ability to deal with changes.

12. EQUALITIES IMPLICATIONS

12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

12.2. For any individual proposal comprising either £50k growth or efficiency, or affecting more than two wards, an equality analysis is required to be carried out; this has either taken place or will take place following agreement of efficiencies or growth.

13. SOCIAL VALUE IMPLICATIONS

13.1. The Social Value Act and "go local" policy do not apply to this report.

14. ENVIRONMENTAL IMPLICATIONS

14.1. There are no known Environmental impacts or requirements that apply to this report.

15. HUMAN RESOURCE IMPLICATIONS

15.1. Although there are no direct human resource implications at this stage, care is taken to ensure that where efficiency proposals or service reviews may affect staff, appropriate communication and consultation is provided in line with HR policy.

16. APPENDICES

16.1. Appendix A - Full list of Revenue Savings and Investments.

16.2. Appendix B - Full proposed Capital Programme

17. CONTACT OFFICERS

17.1. Ian Couper, Service Director – Resources
ian.couper@north-herts.gov.uk; ext 4243

17.2. Antonio Ciampa, Accountancy Manager
antonio.ciampa@north-herts.gov.uk; ext 4566

17.3. Jo Keshishian, Acting Human Resources Services Manager
Jo.Keshishian@north-herts.gov.uk; ext 4314

17.4. Isabelle Alajooz, Legal Commercial Team Manager
isabelle.alajooz@north-herts.gov.uk; ext 4346

17.5. Reuben Ayavoo, Policy and Community Engagement Manager
reuben.ayavoo@north-herts.gov.uk; ext 4212

18. BACKGROUND PAPERS

18.1. None.